

Message Text

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SUBJECT: U.S. TAX LAW ON FOREIGN CONVENTIONS

REF: QUEBEC 0095

1. CANADIAN EMBASSY OFFICIALS IN WASHINGTON HAVE MADE RE-
PRESENTATION TO THE DEPARTMENT ON THE CONVENTION DEDUCTION
ISSUE ALONG THE SAME LINES AS QUEBEC DEMARCHE REPORTED REF-
TEL. DEPARTMENT MADE FOLLOWING POINTS WHICH POST MAY USE
IN ITS REPLY TO QUEBEC GOVERNMENT.

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2. MANY CONGRESSMEN VIEW FOREIGN-SITE CONVENTIONS AS AN
OPEN INVITATION TO TAX FRAUD (DEDUCTING AS A BUSINESS WHAT
IS REALLY A VACATION). BY LIMITING DEDUCTIONS TO TWO
FOREIGN CONVENTIONS PER YEAR, CONGRESS EXPECTED TO PERMIT
MOST LEGITIMATE CONVENTION TRAVEL WHILE ELIMINATING THE
POSSIBILITY FOR EXTENSIVE TAX FRAUD. TO GET THE CONGRESS
TO RECONSIDER THIS POSITION, CANADA (AND OTHER COUNTRIES)

WOULD HAVE TO SHOW THAT THE IMPACT OF THE 1976 AMENDMENTS IS MORE RESTRICTIVE THAN INTENDED BY CONGRESS. THIS IS POSSIBLE IF U.S. CONVENTION ORGANIZERS, WISHING TO MAXIMIZE ATTENDANCE, ARE AVOIDING FOREIGN CONVENTION SITES IN ORDER NOT TO DISCOURAGE FROM ATTENDING THOSE FEW INDIVIDUALS WHO MIGHT PARTICIPATE IN MORE THAN TWO CONVENTIONS PER YEAR. IF THIS IS HAPPENING, THE CANADIANS WILL HAVE TO DOCUMENT THEIR CASE AND PRESENT EVIDENCE TO CONGRESS. THEY WILL HAVE TO LIST CONVENTIONS WHICH HAVE BEEN CANCELLED AND SUPPLY PROOF THAT THE CANCELLATIONS WERE DUE TO THE AMENDMENTS TO THE TAX CODE.

3. CANADIAN LAW ON DEDUCTION OF CONVENTION EXPENSES IS EVEN MORE RESTRICTIVE THAN THE AMENDED U.S. LAW. IT ALLOWS DEDUCTIONS FOR "NOT MORE THAN TWO CONVENTIONS HELD DURING THE YEAR BY A BUSINESS OR PROFESSIONAL ORGANIZATION AT A LOCATION THAT MAY REASONABLY BE REGARDED AS CONSISTENT WITH THE TERRITORIAL SCOPE OF THAT ORGANIZATION." IT IS THE PUBLISHED POLICY OF THE DEPARTMENT OF NATIONAL REVENUE THAT EXPENSES FOR ATTENDING A CONVENTION OUTSIDE CANADA ARE NOT DEDUCTIBLE WHERE THE ACTIVITIES OF THE SPONSORING ORGANIZATION ARE NATIONAL IN CHARACTER.

4. THERE WAS CONSIDERABLE SENTIMENT IN CONGRESS LAST FALL TO ADOPT A LIMIT ON DEDUCTIONS FOR FOREIGN CONVENTIONS SIMILAR TO THE CANADIAN LAW, I.E., ALLOWING NO DEDUCTIONS FOR MOST FOREIGN CONVENTIONS. THE FINAL VERSION OF THE BILL WHICH PERMITS DEDUCTIONS FOR TWO FOREIGN CONVENTIONS PER YEAR WAS CONSIDERED A PARTIAL VICTORY FOR THOSE WHO LIMITED OFFICIAL USE

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WANTED LIBERAL DEDUCTION RULES FOR FOREIGN CONVENTIONS. BECAUSE STRONG SENTIMENT STILL EXISTS IN CONGRESS FOR DISALLOWING ANY DEDUCTIONS FOR FOREIGN CONVENTIONS, AN ATTEMPT TO MODIFY THE 1976 CHANGES COULD RESULT IN FURTHER RESTRICTIONS. WE ARE THEREFORE RELUCTANT TO SEEK CONGRESSIONAL RECONSIDERATION ALTHOUGH WE STRONGLY URGED LAST FALL THAT THERE BE NO DISCRIMINATION BETWEEN U.S. AND FOREIGN CONVENTIONS.
CHRISTOPHER

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